

Message Text

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ACTION EA-10

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C O N F I D E N T I A L PHNOM PENH 15600

E.O. 11652: GDS

TAGS: CB, ECON, EFIN, EAID

SUBJ: MARSHAL TAKES SOME FINANCIAL DECISIONS

1. ON NOVEMBER 22 I MET AT HIS REQUEST WITH THE MARSHAL TO DISCUSS FOUR FINANCIAL PROBLEMS WHICH NEEDED TO BE RESOLVED BEFORE THE PRIME MINISTER LEFT TOMORROW FOR NEW YORK TO ATTEND KHMER DEBATE IN UNGA. THE MEETING WAS ALSO ATTENDED BY PRIME MINISTER, MINISTER OF FINANCE AND GOVERNOR OF THE NATIONAL BANK.
 2. ESF PLEDGING MEETING AT MANILA. MARSHAL SAID THAT DIPLOMATIC NOTES HAD BEEN SENT EARLIER IN DAY TO EMBASSIES OF ALL POTENTIAL EXCHANGE SUPPORT FUND DONORS INVITING THEM TO ATTEND THE PLEDGING SESSION IN MANILA DECEMBER 5. (DEPARTMENT WILL RECALL I HAD RAISED THIS SUBJECT WITH THE MARSHAL AT MY LAST MEETING.) THESE NOTES HAVE NOW BEEN SENT AND WE RECEIVED OUR INVITATION TODAY.
 3. FUNDS FOR NOUVEAU MARCHÉ DE CHANGES. WE DISCUSSED NEED TO REPLENISH THIS EXCHANGE MARKET IN ORDER TO AVOID BRINGING TRANS-ACTIONS TO A HALT IN DECEMBER. I SUGGESTED THAT KHMERS CONTRIBUTE ADDITIONAL \$2 MILLION, WHICH WE WOULD MATCH. GOVERNOR OF THE NATIONAL BANK SAID HE WOULD SEE HOW MUCH KHMERS CAN CONTRIBUTE AND WILL INFORM US OF EXACT AMOUNT EARLY NEXT WEEK.
 4. NEED TO RAISE DEBT CEILING. WE DISCUSSED NEED FOR THE NATIONAL ASSEMBLY TO RAISE THE DEBT CEILING BY AN ADDITIONAL 10 BILLION
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RIELS IN ORDER TO ASSURE PAYMENT OF TROOPS AT THE END OF THIS

MONTH. MARSHAL SAID HE WILL CALL IN ASSEMBLY LEADERSHIP TO REQUEST INCREASE IN BORROWING AUTHORITY BY 15 BILLION RIELS, AGAINST WHICH GOVERNMENT WILL DRAW THE NECESSARY AMOUNT TO ASSURE PAYMENT OF ALL GOVERNMENT SALARIES.

5. FREE MARKET RATE. PRIME MINISTER HAD INSTRUCTED THE GOVERNOR OF THE NATIONAL BANK NOT REPEAT NOT TO RAISE FREE MARKET EXCHANGE RATE, WHICH HAS BEEN STUCK AT 1610 RIELS TO THE DOLLAR FOR SEVERAL WEEKS. THIS HAD CAUSED ANOMALOUS SITUATION WHEREBY THE RATE FOR THE NOUVEAU MARCHÉ DE CHANGES WAS 1800 RIELS PER DOLLAR WHILE THE FREE MARKET RATE WAS WELL BELOW AT 1610. THIS PENALIZED EXPORTERS AND DEFEATED PURPOSE OF FREE MARKET. BLACK MARKET RATE AT PRESENT TIME IS AROUND 1900 RIELS PER DOLLAR. BOTH THE GOVERNOR OF THE NATIONAL BANK AND MINISTER OF FINANCE SPOKE UP IN SUPPORT OF RAISING FREE MARKET RATE TO BRING IT MORE IN LINE WITH RATE OF NOUVEAU MARCHÉ DE CHANGES. PRIME MINISTER OPPOSED MOVE, FEARING THAT IT WOULD LEAD TO SIGNIFICANT INCREASE IN BLACK MARKET RATE BECAUSE OF ADVERSE PSYCHOLOGICAL REACTION. AFTER ONE HOUR LONG DISCUSSION WE AGREED TO RAISE FREE MARKET RATE SLIGHTLY, THEREBY ESTABLISHING PRINCIPLE OF A FLUCTUATING RATE BUT, HOPEFULLY, NOT ADVERSELY AFFECTING PSYCHOLOGICAL CLIMATE HERE.

6. COMMENT: I WAS ENCOURAGED BY THE MARSHAL'S EMPHASIS ON FINANCIAL MATTERS, WHICH IS A NEW DEVELOPMENT AND WHICH SHOULD ASSIST GKR TO GAIN SOME CONTROL OVER EXPLOSIVE ECONOMIC SITUATION.

DEAN

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